



STEELMAN GAS LIMITED ▲ ANNUAL REPORT

J. P. Gallagher

1963



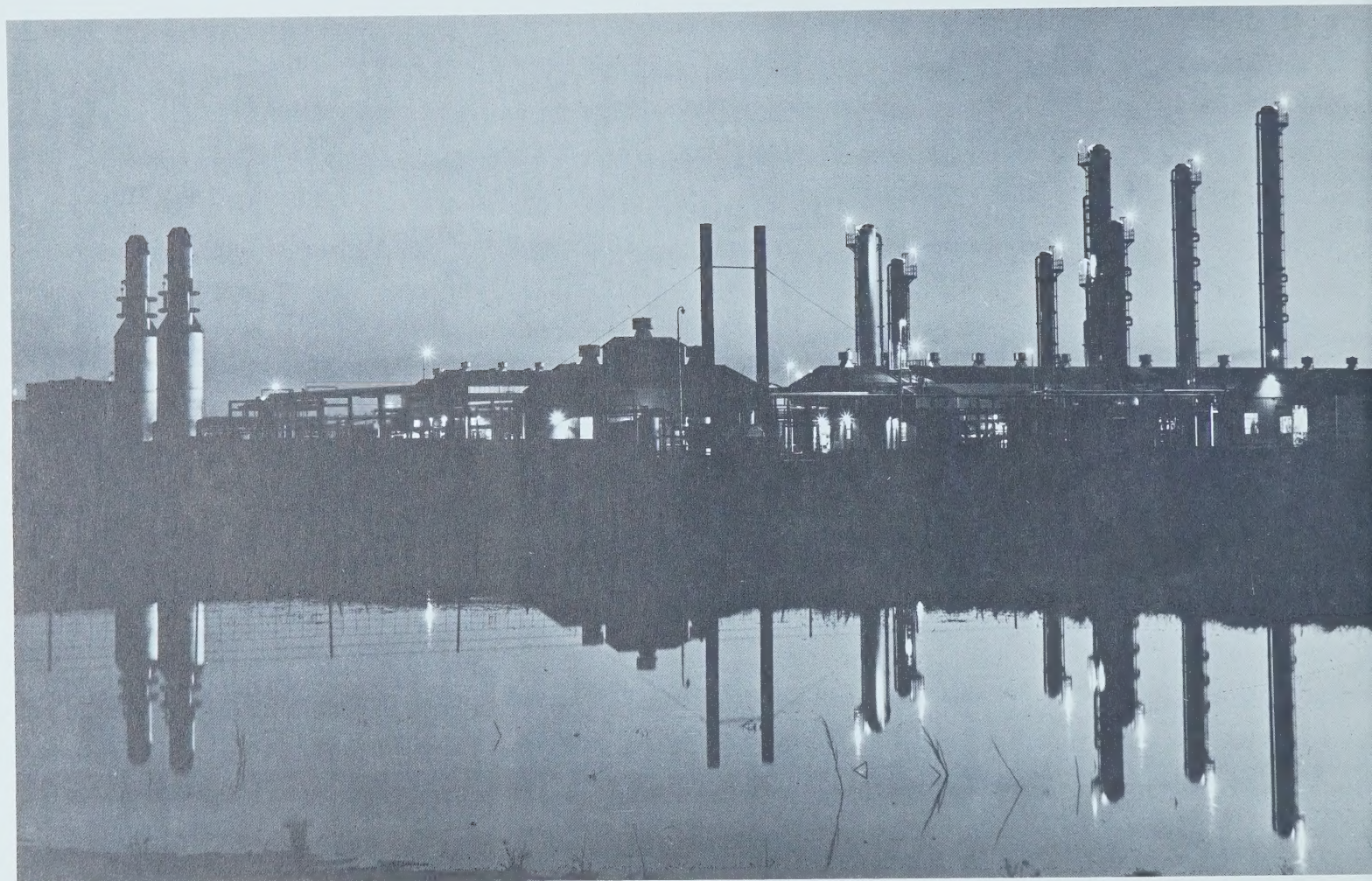
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HEAD OFFICE	2236 Albert Street, Regina, Saskatchewan
PRINCIPAL OFFICE	706 Seventh Avenue S.W., Calgary, Alberta
DIRECTORS	N. J. ALEXANDER, Winnipeg, Manitoba D. C. COLLIN, Calgary, Alberta C. S. DUNKLEY, Calgary, Alberta J. P. GALLAGHER, Calgary, Alberta C. W. MICHEL, New York, N.Y. B. V. REED, Regina, Saskatchewan D. M. WOLCOTT, Calgary, Alberta
OFFICERS	J. P. GALLAGHER, President D. M. WOLCOTT, Vice-President W. E. RICHARDS, Secretary H. T. ASTLE, Treasurer
REGISTRAR AND TRANSFER AGENT	MONTREAL TRUST COMPANY Regina, Montreal, Toronto, Winnipeg, Calgary, Vancouver
LEGAL COUNSEL	MacPHERSON, LESLIE and TYERMAN Regina, Saskatchewan
AUDITORS	CLARKSON, GORDON & CO. Regina, Saskatchewan; Calgary, Alberta

STEELMAN GAS LIMITED — ANNUAL REPORT

1963



REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

The gas throughput at the Steelman plant increased 8.2% during 1963 to a total of 10.55 billion cubic feet for an average of 28.9 million cubic feet per day. In 1962 the gas throughput totalled 9.76 billion cubic feet, representing an average of 26.7 million cubic feet per day.

The financial statements of previous Annual Reports have utilized what is known as a "straight line" basis of calculating depreciation. Under this method, depreciation was calculated as an equal annual charge based on the original value and anticipated life of the facilities.

In 1961 the oil producing companies in the Steelman field instituted a water-flood, pressure maintenance program. The effect of this program on gas production was only measurable over an extended period of operation. Now that it is possible to appraise, with reasonable accuracy, the future remaining economic reserves in the Steelman field, the method of depreciating the Company's facilities has been changed to a "unit of production" basis. Under this method, the percentage of the value of the facilities charged as depreciation in any year is equal to the percentage of the total economic reserves produced in that year. This method also has the advantage of enabling the rate of depreciation to be decreased if additional reserves become available to the plant.

The Company's gross income increased to \$2,604,200 for the year ended September 30, 1963,

from \$1,995,341 in 1962. Operating profit, after direct operating, administration and interest expenses, increased to \$1,182,988 in 1963 from \$595,398 last year. Net income, after all charges including depreciation and amortization, was \$267,593 compared to a loss of \$372,067 in 1962. The accumulated deficit to date is \$1,581,506. For the purpose of the above comparison, the 1962 and 1963 net income and the accumulated deficit, have been calculated utilizing the unit of production basis of depreciation.

The 1963 financial statements reflect a reduction in our payment to the Steelman producers for raw gas processed in the Steelman plant. Formerly the payment was based on a sliding scale, calculated on the price received for the products and residue gas produced. The current payment is a flat $\frac{1}{4}\text{¢}$ /Mcf of casinghead gas processed at the plant during the period that the Company is unable to accumulate funds at a rate sufficient to repay its debt within the term of its loans.

Production and Operations

During 1962, the Steelman gathering system was revised to take advantage of a battery consolidation program which followed unitization of the field. This revision resulted in a substantially greater percentage of the total field gas production being available to the plant. However, 1963 gas throughput was not as high as originally anticipated due to abnormally heavy prorationing of Saskatchewan

Night view of the processing area at the Steelman Plant.

S. E. SASKATCHEWAN



Δ Compressor Station
 ——— . . Main Gathering Line
 - - - . . Gas Pipeline
 ——— . . Oil Pipeline
 * Oil Well
 ° Well Location

crude oil to market demand during the summer months. This resulted in a substantial reduction in the volume of gas produced from the Steelman field.

Plant throughput for the first quarter of the 1963-1964 financial year averaged 32.67 million cubic feet per day compared with an average of 33.12 million cubic feet per day for the same period last year.

Comparative product recoveries during 1963 and 1962 were as follows:

	Year Ended September 30, 1963	Year Ended September 30, 1962
Residue Gas (Billion cubic feet)	8.28	8.71
Propane (Million Imperial gallons)	16.67	13.44
Normal and Iso-butane (Million Imperial gallons)	8.92	7.06
Natural Gasoline (Million Imperial gallons)	5.44	4.88
Sulphur (Long tons)	1,098	1,672

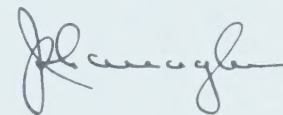
The casinghead gas processed during 1963 contained a higher percentage of natural gas liquids, the extraction of which resulted in a slight reduction in the residue gas sold.

Affiliated Companies

Steelman holds one of the three outstanding common shares of Edmonton Liquid Gas Limited, which owns a liquid gas extraction plant near the city of Edmonton. A portion of the propane and butane extracted by this plant is marketed in northern Manitoba by Steelgas Limited, a wholly-owned subsidiary of Edmonton Liquid Gas.

We sincerely appreciate the industry and loyalty of our employees during the past year, and the full co-operation of the producing companies in the Steelman field.

On behalf of the Board,



President

December 31, 1963.

BALANCE SHEET SEPTEMBER 30, 1963 & 1962

ASSETS

	1963	1962
CURRENT:		
Cash	\$ 6,764	\$ 9,252
Accounts and claims receivable	375,596	265,619
Due from affiliated companies	10,032	13,558
Inventories —		
Products in storage at minimum selling price	290,626	30,028
Parts and supplies at lower of cost or market	200,104	207,532
Prepaid expenses	39,874	45,307
	<u>\$ 922,996</u>	<u>\$ 571,296</u>
 AMORTIZATION FUND FOR RETIREMENT OF FIRST MORTGAGE		
BONDS:		
Cash	\$ 78,548	\$ 9,902
Marketable securities at cost plus accrued interest (quoted market value \$1,714,952; 1962 - \$1,202,123)	1,643,760	1,173,194
Amortization fund instalment due February 15, 1964 - per contra	525,000	530,000
	<u>\$ 2,247,308</u>	<u>\$ 1,713,096</u>
 PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation (Notes 1 and 2)	<u>\$ 7,667,451</u>	<u>\$ 8,184,587</u>
 OTHER:		
Long term debt discount, financing and pre-production expenses less amounts written off	\$ 207,166	\$ 269,495
	<u>\$11,044,921</u>	<u>\$10,738,474</u>

See accompanying notes to financial statements.

Liabilities

CURRENT:

Accounts payable and construction holdback	
Due to affiliated companies	
Accrued interest on long term debt	
Bank loan repayments due within one year	
Amortization fund instalment due February 15, 1964 - per contra	

1963	1962
\$ 353,793	\$ 265,899
508,672	240,017
88,087	88,688
300,000	300,000
525,000	530,000
<u>\$ 1,775,552</u>	<u>\$ 1,424,604</u>

LONG TERM DEBT (Note 3):

6% First Mortgage Bonds due February 15, 1970 subject to amortization fund —	
Series A (U.S. \$4,000,000)	
Series B	
6% Debentures Series A due May 15, 1973 subject to sinking fund	
Bank loan (exclusive of \$300,000 included in current liabilities)	

\$ 4,324,000	\$ 3,901,250
1,455,000	1,505,000
2,000,000	2,000,000
321,875	621,875
<u>\$ 8,100,875</u>	<u>\$ 8,028,125</u>

SHAREHOLDERS' EQUITY (Notes 4 and 5):

Capital —	
Authorized—3,000,000 common shares of \$1 par value each	
Issued —1,100,000 shares	
Paid-in surplus	
Deficit	

\$ 1,100,000	\$ 1,100,000
1,650,000	1,650,000
(1,581,506)	(1,464,255)
<u>\$ 1,168,494</u>	<u>\$ 1,285,745</u>

COMMITMENTS (Notes 6 and 8)

On behalf of the Board:

J. P. GALLAGHER, *Director*
D. M. WOLCOTT, *Director*

<u>\$11,044,921</u>	<u>\$10,738,474</u>
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AUDITORS' REPORT

TO THE SHAREHOLDERS OF STEELMAN GAS LIMITED.

We have examined the balance sheet of Steelman Gas Limited as at September 30, 1963 and the statements of income and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the company, the accompanying balance sheet and statements of income and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Steelman Gas Limited as at September 30, 1963 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the changes in the basis of computing annual depreciation charges and of accounting for the long term liability payable in United States funds as explained in Notes 1 and 3, which changes we approve.

In our opinion all the transactions of the company that have come to our notice have been within the objects and powers of the company.

Calgary, Alberta.
December 23, 1963.

CLARKSON, GORDON & Co.
Chartered Accountants.

STATEMENT OF INCOME

Years ended September 30, 1963 and 1962

	1963	1962
INCOME:		
Production of residue gas and products, less producers' share (Note 6)	\$2,511,526	\$1,903,751
Miscellaneous	92,674	91,590
	<u>\$2,604,200</u>	<u>\$1,995,341</u>
EXPENSES:		
Operating, general and administrative	\$ 896,167	\$ 875,753
Interest on long term debt	525,045	524,190
	<u>\$1,421,212</u>	<u>\$1,399,943</u>
Operating profit before depreciation and amortization	<u>\$1,182,988</u>	<u>\$ 595,398</u>
DEDUCT:		
Depreciation (Note 1)	\$ 853,066	\$ 911,222
Amortization of long term debt discount, financing and preproduction expenses	62,329	56,243
	<u>\$ 915,395</u>	<u>\$ 967,465</u>
Net income (loss) for the year (Note 7)	<u>\$ 267,593</u>	<u>\$ (372,067)</u>

STATEMENT OF DEFICIT

Year ended September 30, 1963

Balance at October 1, 1962		\$ 161,429
Add:		
Adjustment of prior years' depreciation (Note 1)		1,302,826
Adjustment of Canadian dollar liability of Series A First Mortgage Bonds payable in United States funds (Note 3)		422,750
		<u>\$1,887,005</u>
Deduct:		
Reduction of cost of gas purchased in prior year (Note 6)	\$ 37,906	
Net income for the year	267,593	305,499
	<u></u>	<u></u>
Balance at September 30, 1963		<u>\$1,581,506</u>

Notes to Financial Statements September 30, 1963

1. DEPRECIATION.

As of October 1, 1962 the company retroactively changed the basis of providing depreciation of its plant and gathering system from the straight line method to the unit of production method which change was made because of a decrease in the gas reserves in the Steelman field estimated to be recoverable under the waterflood conditions which now obtain. As a result \$1,302,826 has been charged to deficit representing adjustments of prior years' depreciation provisions. Had the previous method been applied in the current year the provision for depreciation would have been decreased and the net income for the year increased by \$395,058. The 1962 figures shown for comparative purposes have been re-stated to give effect to the retroactive change.

2. PROPERTY, PLANT AND EQUIPMENT.

The company's investment in property, plant and equipment is summarized below:

	September 30, 1963	September 30, 1962
Land	\$ 33,574	\$ 33,574
Plant, gathering system and underground storage facilities	11,035,620	10,788,501
Other equipment	45,048	50,413
	<u>\$11,114,242</u>	<u>\$10,872,488</u>
Less accumulated depreciation	3,446,791	2,687,901
	<u>\$ 7,667,451</u>	<u>\$ 8,184,587</u>

3. LONG TERM DEBT.

At September 30, 1963 the Series A First Mortgage Bonds payable in United States funds (\$4,000,000) are expressed in Canadian dollars based on the fixed rate of exchange (92.5¢ U.S.) whereas previously the liability reflected the rate of exchange in effect at the date the liability was incurred. The resulting adjustment of \$422,750 has been charged to deficit.

The 6% First Mortgage Bonds are secured by a first fixed and specific mortgage and a first floating charge on the company's property and undertaking.

The 6% Debentures are secured by a second floating charge on the undertaking, property and all other assets of the company. On August 15 in each of the years 1964 to 1970, if earnings of the preceding year, as defined in the indenture, are sufficient, the company is required to pay into a sinking fund for the retirement of the 6% Debentures Series A. No payment is required to be made in 1964.

The company's bank loan is partially secured by an assignment of accounts receivable. While the loan is evidenced by a demand note, the bank has indicated it will accept repayment in annual instalments of \$300,000.

4. CAPITAL.

Stock Purchase Warrants are outstanding entitling the holders thereof to purchase 180,000 shares of the company's capital stock at a price of \$2.50 per share until September 30, 1965 and at varying rates thereafter until September 30, 1970.

5. DIVIDENDS, etc.

The trust deed and the indenture securing the 6% First Mortgage Bonds and 6% Debentures respectively contain various provisions and restrictions affecting, inter alia, the payment of cash dividends, the redemption or purchase of capital stock, the issue of additional bonds and debentures and the making of investments in, or loans to, other companies.

6. Effective August 1, 1962 the price payable for casinghead gas was reduced by agreement with the producers, to ¼¢ per mcf, which price is to remain in effect until such time as the accumulated cash earnings of the company exceed the required principal and interest payments on the company's debt. The gas purchase price will then increase to a maximum of the original contract price plus 1¢ per mcf. This excess of 1¢ will remain payable until the difference between the reduced price of ¼¢ per mcf and the original contract price, plus interest at 5% per annum, has been paid.

As a result of this reduction in gas purchase price, the cost of casinghead gas purchased during the year ended September 30, 1963 was reduced by \$246,129 and net income for the year increased accordingly. The reduction applicable to the months of August and September, 1962 in the amount of \$37,906 has been credited to deficit.

7. INCOME TAXES.

No income taxes appear to be payable on the year's net income as a result of the carry-forward for tax purposes of prior years' losses.

8. COMMITMENTS.

The company has leased, with an option to purchase, certain compressor equipment requiring rental payments of \$20,000 quarterly to February 1, 1966 and \$41,650 quarterly from May 1, 1966 to February 1, 1971.

